

UNITED STATES MARINE CORPS
Financial Management School
Marine Corps Combat Service Support Schools
PSC Box 20041
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FMOC 0205
JAN 2000

STUDENT OUTLINE

MONITOR CURRENT AND PRIOR YEAR APPROPRIATIONS

LEARNING OBJECTIVES:

a. TERMINAL LEARNING OBJECTIVE: Given a financial plan, source documents, required accounting reports, closeout guidance, and the references coordinate fiscal year closeout to ensure funding is obtained and accounting records accurately reflect obligations prior to the end of the fiscal year in accordance with NavCompt Manual, Vol. 2, 3, and 4. (3451.3.5)

b. ENABLING LEARNING OBJECTIVES:

(1) Without the aid of references, and given a written examination define in writing the purpose of the fiscal year close-out in accordance with the DODFMR, Vol. 7A. (3451.03.05a)

(2) Without the aid of references, and given a simulated situation prepare a plan of action and local guidance for command BEAs to conduct a fiscal year close out in accordance with the DODFMR, Vol. 7A. (3451.03.05b)

(3) Without the aid of references, and given written questions explain in writing the purpose of contingency spending plans in accordance with the DODFMR, Vol. 7A. (3451.03.05c)

1. PURPOSE OF MONITORING COMMAND FUNDS

a. Why do we monitor command funds? The major purpose of monitoring funds is to ensure some measure of control over the scarce resources granted to a command for funding its assigned missions and programs. By monitoring funds, you basically are trying to get the "most bang for the buck" on purchasing power of goods and services for the command. NavCompt Manual, Vol 7, summarizes monitoring as a continuing review process and states:

"Program and comptroller personnel at all levels of financial and operating responsibility receive and analyze reports of operational or spending levels to determine needs for adjustment upward or downward or for reprogramming of resources in line with changes in timing, program emphasis, pricing, or other determinants of financial requirements. Accounting status reports used in conjunction with reports of performance, as well as the consistent exchange of data in connection with management decisions, indicated needs for additional funds or for deceleration of program activity, or may reveal the availability of savings for diversion to other urgent requirements."

b. There are five major reasons for monitoring funds. These are:

(1) To ensure compliance with legal statutes and regulatory provisions within the government (e.g. OMB and OSD regulations and to ensure command does not incur a 1517 violation).

(2) To ensure efficient use of scarce resources within the command to meet program and mission requirements.

(3) To ensure control of obligations and expenditures of funds under the operating budget granted to the command.

(4) To ensure a basis of justification for fund requests during POMs, budget requests, and deficiency funding requests.

(5) To validate information contained in the accounting system that is used to report execution information.

2. COMPARING THE FINANCIAL PLAN WITH EXECUTION INFORMATION

a. To begin the process of monitoring the execution of command funds, you will need to refer to information contained

in several sources. These sources are:

- (1) the command's budget;
- (2) the command's authorization plan (quarterly plan and year's plan);
- (3) various SABRS reports.

b. There are many reports produced from SABRS that can be used for monitoring command funds. However, there are several basic reports used by all commands for monitoring direct funds. These reports are produced from the Budget Execution Subsystem of SABRS. The key reports are:

(1) DFBR039 - WORK CENTER SUMMARY BY BUDGET EXECUTION ACTIVITY DIRECT FUNDS REPORT (SABRS III BudEx manual). This report provides a summary of direct funds by appropriation and subhead, for each WORK CENTER within the command. The report reflects the amounts of authorizations issued to each BEA and the amounts of recorded Commitments and Obligations in SABRS. The amounts on the report are cumulative from the first day the particular fiscal year began to today's date (commonly referred to as "cumulative to date"). This report is used for a quick snap shot of the obligation status of each BEA.

(2) DFBR035 BUDGET EXECUTIN ACTIVITY MANAGEMENT REPORT - (SABRS III BudEx manual). This report will provide a summary of direct funds by appropriation, subhead, and BEA for each command, with a further breakdown to the object class and subobject class code level. The report contains information and costs for authorizations, commitments, obligations, expenses, and liquidations for all command BEAs by reported and recorded object class/subobject class codes. This report is cumulative to date. This report is used to compare actual expense types and expense sources incurred with those object class and subobject class codes planned in the budget for each BEA.

(3) DFBR029 - DETAIL PLANNING AND PERFORMANCE DIRECT REPORT (BudEx manual). This report provides detail cost information by BEA for a given years appropriation and subhead. This report provides information at the Program Element Number, Cost Account Code, and Object Class Code levels. The report does not contain authorization information, but contains the amount of recorded commitments, obligations, expenses, and liquidations incurred year to date by the BEA.

(4) DFRB010 - DNR UNMATCHED REPORT (page SABRS III Exp/Collection manual). This report contains a cumulative listing of all payments that did not post to a specific transaction in one of the spending subsystems (i.e. M&S, Travel, or Labor). This report is broken down by appropriation and subhead (report is not based on BEA). Records reflected on this report have not matched an active record based on document number or have matched an active record, but the appropriation data of the payment does not match the appropriation data of the obligation.

(5) G7RPPV11 - PREVALIDATION REPORT - Other expenditure reports that will be used are produced via the Payment Pre-validation process established by DBEAS-Kansas City. These reports will include reports on payment requests for contracts that either have not been obligated in SABRS based on document number or the payment is in excess of the outstanding obligation balance in SABRS for the specific document number.

c. The objectives of monitoring the command's financial position are to ensure maximum use of scarce resources in support of assigned tasks and missions and to ensure the command does not spend more funds than the amount granted by higher headquarters. With this in mind, where do we start the analysis or monitoring process? You will monitor command spending in the macro sense after each cycle. This means that you will review the XR04/DFBR039 report to ensure that BEA's obligations are equal or below the amount authorized for them to spend. If a BEA is over the amount authorized, detail analysis of the account must be immediately performed to determine the cause of overobligations (i.e. duplicate obligations posted, keying error on manually inducted obligation records, or they have simply spent more than they were authorized). Another report that should be checked each cycle is the FAMR/BEAMR. This report will provide a more detailed picture of fund status by including expense and liquidation information for each BEA.

d. Monitoring funds in detail should become a basic process that you do each month. There is a vast amount of information that can be verified and used to perform your analysis. To keep the process as simple as possible, we will discuss a basic format or routine that can be used when performing the monthly analysis of the command's financial plan. These basic steps are:

(1) Begin the analysis by obtaining copies of the following

reports out of INFOPAC:

(a) DFBR039 Work Center Summary by BEA - This report provides the status of Work Centers for each OPBUD/SUBOPBUD for each Fiscal year, subhead.

(b) DFBR035 BEA Management Report - This report provides the status of a Budget Execution Activity (BEA) for each fiscal year, subhead, object class, and subobject class codes. The report is cumulative to date.

(2) Obtain a copy of your command's budget submission and the current authorization plan for fund distribution to the BEAs.

(3) Compare the authorization amounts from the authorization plan with amounts issued to each BEA in SABRS. These amounts should equal. If they do not equal, determine the following:

(a) Have all authorizations to each BEA been entered into SABRS by the Comptroller office?

(b) Has the command's authorization plan been adjusted to incorporate changes in fund distribution between BEAs or to reflect increases in the operating budget that were not foreseen when the fiscal year began?

(c) Make appropriate adjustments to the authorization plan or SABRS as required.

(4) Once the authorization amounts have been validated, perform a cursory review of obligations posted for each BEA. These amounts are reflected on the DFBR039 report. Determine the following:

(a) Are any BEAs overobligated (more obligations than funds authorized)? If they are, determine why they are overobligated as previously discussed.

(b) What does the obligation rate look like for the command as a whole and for each BEA? As discussed in lesson FMOC 0204, the BEAs and the command requested their phased obligation plans for authorizations to be issued for each quarter. The amount of obligations recorded should be in-line

with the request. If not determine why the funds are not being obligated (e.g., contract has not yet been issued, lower costs than anticipated for utilities, lower cost than anticipated for an exercise, etc.). BEAs who are simply not executing (no real substantiated reason) could be a source of funds for future internal realignments of funding to meet other command priorities or new contingencies (keep them in mind for future requirement needs).

3. PERFORMANCE REPORTING

(1) Annual Authorization. The total FY PE and RA fund authorization as recorded on the BEAMR. The annual ceiling should include all additional funding authorizations provided through the month of the monthly/quarterly/yearly closeout report.

(2) Percent Obligated, Fiscal Year to Date. The percent obligated to date is the ratio of the current obligations to the FY to date authorization.

(3) Percent Obligated, Annual. The annual percent obligated is the ration of the current obligations to the annual authorization.

(4) Explanation of Obligation Goal Variance Reporting. A narrative justification is required whenever the percent obligated, FY to Date, exceeds 100 percent at the end of any month. The PE and RA authorizations will be considered separately. A narrative justification is also required whenever the following goals are not met at the end of each reporting period for PE and RA separately.

<u>END OF</u>	<u>% OBLIGATED, FYTD</u>	<u>% OBLIGATED, ANNUAL *</u>
1 ST QTR	88%	25
2d QTR	92%	50
3D QTR	95%	76
JUL	84%	84(88% FMF CMDs)
AUG	92%	92%
4 th QTR	99.5%	99.5%

*Annual obligation percentages are guidelines. Commands are expected to explain variances; however, it is acknowledged that annual obligation percentages may vary due to funding authorization provided.

(a) A basic rule of thumb for obligation rates unless otherwise covered in local guidance is that at the end of each of the first three quarters, the command should have obligated 80% of the funds authorized in those quarters. Another rule of thumb is that by March (end of second quarter/mid year) the command should have at least 50% of its yearly authority obligated. Other rules apply to the last quarter that will be discussed in detail during the FMOC 0206 period of instruction.

(5) Once the obligation check is performed (and any problems researched), the next step is to begin an in-depth review of records to the OC/SOC and CAC levels. The first check will be a cursory review of CACs used by the command to those contained in the budget submission. This is accomplished by taking the DFBR035 and comparing it to the budget. When making this comparison the following should be examined:

(a) Are the CACs being used by BEAs the same as those contained in the budget? If not, research to see if the CAC being used is correct for the particular type of obligation.

(b) Are only a few CACs being used when compared to the budgeted plan? This may mean that BEAs have found a "favorite FIP" (one they know will work) and are using that FIP on all or most buys. If this is the case, you will need to train those BEAs on proper use of CACs and follow-up on future obligations.

(c) Are the obligations by CAC lining up with the budgeted plan? If not, this may mean that all the CACs required were not cited in the budget (make note for corrections in future budgets), that more cost than anticipated or planned for the CAC is being incurred (make note for possible correction of future budgets), or that one or more BEAs are relying on their "favorite FIP" (TRAIN THEM).

(6) After the cursory CAC check is performed for the command, the next step is to perform a review of the expense types being incurred based on recorded Object Class and Subobject Class codes. To perform this monitoring you will need the DFBR035 report and your budget plan. When you perform the OC/SOC comparison to the budget you should look for:

(a) Are the object class/subobject class codes being used by the BEAs the same as those contained in the budget (if not research to see if the OC/SOC being used is correct for the type of obligation being recorded).

(b) Are only a few OC/SOC's being used when compared to the budgeted plan? This may mean the "favorite FIP" again. Train the BEAs on proper OC/SOC and FIP selection when creating source documents.

(c) Are the obligations by OC/SOC lining up with the budgeted plan? If not, this may mean that all the OC/SOC's required were not cited in the budget (make note for corrections in future budget's), more cost than anticipated or planned for the OC/SOC is being incurred (make note for possible correction of future budgets), or that one or more BEAs are relying on their "favorite FIP/Data Element" (TRAIN THEM).

(7) Other checks that can be performed:

(a) If your unit participates in exercises, you can compare the Training Exercise Employment Plan (TEEP) portion of your budget to actual costs incurred and recorded in SABRS by getting the DFBR043 (Special Interest Code Weekly Direct report) to check on how the command is executing exercise dollars with the budgeted plan. The key for this process to work is the proper use of Special Interest Code in the FIP to capture costs for each identified exercise.

(b) When encountering problems with specific BEAs or periodically for a detailed review of a BEAs execution, pull the DFBR029 Detail Planning and Performance Direct Report for those BEAs and compare their detailed execution (execution by CAC and OC) to their submitted budget plans. Provide guidance on problem resolution as required.

(c) Examine the DFRB010 DNR Unmatched Report and other payment notification reports. Problem payments need to be corrected promptly. While this duty is primarily assigned to DFAS, your assistance is required. In particular, when notified of payments without obligations or in excess of the obligation, perform research and corrective action. This may include obligating funds, changing the document number of an established obligation (when entered incorrectly into SABRS) or DFAS may be using an incorrect document number when making the payment (notify them so they can make the correction). The key point

with payments is to stay on top of them and get problems resolved. Remember, not only will overobligation get you in trouble, but over payments will provide you with the same jail cell, so STAY ON TOP OF PAYMENTS!

4. ANALYSIS OF PRIOR YEARS AND REVERTED BALANCES

a. What does the term "Reverted Balance" mean? A reverted balance is simply the unobligated or available amount of the command's operating budget at the end of a fiscal year closeout. Another way of stating a reverted balance is the difference between the amounts authorized minus the amount obligated after the current fiscal year is closed.

b. When the current fiscal year ends or closes (e.g., FY 1998 ends on 30 September 1999, 1 October 1999 begins the new FY of 1999), the remaining available balance that was not obligated by 30 September cannot be used to create "new" obligations on 1 October or after. You cannot create a purchase order, contract, and new supply requisition, etc. citing FY 98 funds once you move into FY 99 on 1 Oct. The available balance is partially lost for command use, thus the term "Reverted Funds."

c. An exception to the previous statements is that the command can use the funds that are reverted for a given fiscal year to cover price increases or shipping charges for transactions that were created prior to 1 October for that applicable fiscal year. In other words, if an obligation for a supply requisition was made on 28 September (FY 98) and the bill for the order is received on 10 December (payment still affects FY 98 appropriation) showing an increase in unit price of \$10.00, you can use your reverted balances to increase that obligation by \$10.00 to cover the order increase.

d. An example of reverted balances are:

30 Sep 98	Balances	FY 1997
Authorized:		\$4,500,000
Obligated:		\$4,496,289
Reverted Balance	\$	3,711

30 Sep 99 Balances FY 1998

Authorized:	\$4,500,000
Obligated:	\$4,423,655

Reverted Balance	\$ 76,345
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e. Why did the reverted balance for FY 97 increase from the close of the year on 30 Sep 1999 through one year later on 30 Sep 1998? Reverted balances can increase and decrease based on fiscal actions taken on individual obligations after the year closes. If an obligation were canceled after 30 September, your reverted balances would increase (decrease your obligations and you increase your reverted balance). If a price increase occurred after 30 September, your reverted balance would decrease (used some of those reverted funds to cover the payment increase).

f. So are reverted balances important to you and the command? Reverted balance amounts can literally save you if you end up with payments that exceed the amount of obligations recorded in SABRS or when transactions appear after 30 September for obligations incurred but never recorded in SABRS. In these cases, you need the reverted balances to record or increase obligations for your command.

g. The downside of reverted balances is that if the funds are not used to cover unanticipated price increases or missing obligations, the reverted balance amounts will represent "lost opportunities" for provided funding. This does not really hurt the command if the reverted balance amounts are low. Once reverted balances begin to rise or become a large percentage of that year's OPBUD (five or more percent), they can hurt the command in future years. How do they hurt for future years? Large reverted balances show higher headquarters a lack of execution. If your OPBUD was 5 million and you reverted 400 thousand 2 years ago and you are trying to get increases in your OPBUD for the current year, an argument could be made that the money you need today you already have if you just manage your accounts better. Just look at two years ago when you were given 5 million, and you only used 4.6 million (the 400 thousand reverted was lost opportunity). Better management and control of your funds would be the argument made for not approving the funding request you are making in the current year (based on prior year actual execution).

h. So how do you keep reverted balances from being a problem for future years? Simple! You need to establish a monitoring system to identify causes of reverted balances, and from these causes develop actions to avoid or prevent their occurrence. The first and best way of minimizing reverted balances is to ensure that reviews of outstanding obligations and undelivered orders are performed periodically by the BEAs and that they are actually checking the status of transactions and performing corrective action timely. Finding erroneous obligations after the fiscal year ends does not help the command as much as finding them during the current year when you can still use those funds to buy other goods and services. Aggressively monitor current year, so that it will not become a problem after the year is closed.

Inadequate validation procedures contribute to reverted authorizations. Accordingly, reverted authorizations are to be avoided by accomplishing thorough weekly, monthly, and quarterly validations during the Fiscal Year. General fiscal policy is to maintain UDO/OTO reversions to a minimum; however, a maximum limit of not more than 5% ULO/OTO reversion is provided as a guideline for all FY. The formula for computing ULO/OTO reversion is:

Current reverted balance minus reverted balance at the end of the FY = ULO/OTO reverted amount (not less than 0).

ULO/OTO reverted amount minus reverted balance at the end of the FY = Percent of ULO/OTO reversion.

CAVEAT: No valid obligations will be cancelled to prevent an over obligation if the over obligation can be identified and thoroughly documented to have been caused by a price increase.

Requests for prior year funds to cover documented cases of price increase that will cause an over obligation to a Opbud/Subopbud should be submitted in sufficient time to allow action prior to submission of performance/accounting reports.

i. EXPIRED APPROPRIATIONS - There is specific terminology used when we talk about a prior fiscal year's records. We call these accounts "EXPIRED APPROPRIATIONS." An expired appropriation or account means the appropriation is not available for incurring new obligations, but can be used to make payments against previously established obligations. Payments can be made on expired accounts for 5 fiscal years after the appropriation have expired. Once the 5 years are up (total of

six years for operations and maintenance appropriations, which is current year plus 5 expired years = 6 total years), the appropriation is "CLOSED" or "CANCELED." This means that the appropriation is no longer valid to make payments against. The U.S. Treasury has basically shut down that appropriation's bank account, and the appropriation no longer exists.

j. The steps for monitoring your expired appropriations are slightly different than monitoring funds during a current year. Your emphasis with prior year accounts is on receiving goods and services from outstanding obligations and the payment of the outstanding obligations. Further, BEAs will be reviewing the validity of outstanding transactions after the year closes to ensure that either the obligation order is still valid (you will get the goods and services ordered) or that the obligation is not valid (need to cancel the obligation in SABRS).

k. Special reporting requirements to HQMC (via your funding chain) exist for prior or expired year accounts. You must report quarterly, the amount available for withdrawal from prior year accounts. The amount reported as available for withdrawal is the amount of your reverted balance that HQMC can take from you (lowering your OPBUD amount) so that they can increase another command's OPBUD to cover obligations or price increases in excess of that command's original OPBUD and reverted balance amounts.

l. So what steps do you take if you find your command has no available balance in a prior year, and the amount of obligations exceeds the amount authorized? In this situation, you have an apparent 1517 violation. (Your command spent more funds than were authorized). The first step is not to panic. Perform the following procedures:

(a) Perform a review of obligations on the BEAs that are overobligated. Check the following:

(1) Are all obligations posted correctly? If obligation amounts are not correct, correcting them may eliminate the overobligation status.

(2) Are all outstanding obligations valid? If not, remove the invalid obligations from the accounting records. The amount de-obligated may be enough to eliminate the overobligation status.

(2) Perform a review of obligations for all command BEAs. The aim with this review is to identify invalid obligations and remove them from the accounting records. The amount of de-obligations may be enough to eliminate the overobligation status.

(3) After reviewing all accounting records the command is still overobligated, request from the next highest comptroller office in the funding chain-of-command if they or another command subordinate to them has funding available to transfer to your OPBUD. Be prepared to discuss intended corrective action for the upcoming fiscal year in order to minimize repeating the same problem in subsequent years.

(4) Identify the cause of overobligation (e.g., not recording all transactions in SABRS, incorrectly recording amounts, payment problems, etc.), and institute corrective procedures (e.g., monitor certain accounts in greater detail, educate BEAs, etc.).

m. **Unliquidated Orders/Outstanding Travel Orders (ULO/OTO) REDUCTION** - Reduction goals apply to direct New Obligational Authority (NOA). Due to the inherent time lag in fulfilling Maintenance Real Property (MRP) obligations will continue to be monitored to ensure ultimate liquidation. Goals apply to ULO's Outstand Travel Orders (OTO's) remaining outstanding on the accounting records at the end of each period indicated below as compared to the ULO's and OTA's outstanding at the end of the applicable FY. The formula for computing the ULO/OTO reduction percent is as follows:

ULO/OTO end of current period divided by ULO/OTO end of applicable FY = Percent ULO/OTO remaining.

100 percent minus percent ULO/OTO remaining - Percent ULO/OTO Reduction.

The following ULO/OTO reduction goals are established for each FY quarter following the end of the FY:

<u>TIME PERIOD</u>	<u>ULO REDUCTION GOALS</u>	<u>OTO REDUCTION GOALS</u>
5 TH Quarter	43%	45%
6 th Quarter	65%	75%
7 th Quarter	79%	90%
8 th Quarter	84%	100%
9 th Quarter	91%	
10 th Quarter	98%	

Current year CY = 1st - 4th Qtrs. After Closeout of applicable CY Prior Year reporting commences CY-1 in the fifth Quarter.

Message or letter justification to Higher Headquarters is required whenever the quarterly reduction rates do not meet the established goals.

(5) Higher Headquarters requires that at the close of every monthly cycle a performance report is sent to the Opbud/Subopud holder providing a detail account of the command's financial status.

5. COMMON PROBLEMS WITH BUDGET EXECUTION ACTIVITIES (20 MIN)

a. The problems with BEA execution have already been discussed in other lessons (specifically BEA Reconciliation and Validation of Outstanding Obligations). However, the problems that arise in monitoring funds are created by what BEAs do (or don't do) and cannot be stressed enough when dealing with fund execution subjects.

b. Who spends the funds of a command? The answer, of course, is the BEAs of the command. The Commanding General and the Comptroller are not out there spending the OPBUD, but the individual units and G shops that make up the command are spending the funds. If you want to have some control on the macro level for fund execution, the place to start is the micro level with each BEA.

c. For BEAs to perform their financial management tasks properly they have to be trained. Please remember, most of the fiscal officers and fiscal clerks at the BEA level ARE NOT in

the financial MOS and by and large do not have the formal training in financial matters that you have received. Therefore, **TRAINING BEAs** is the key for proper control and execution of funds. By ensuring the BEAs are trained and by performing assistance visits and inspections on their records (discussed in detail during the internal control lessons), the command overall can have reasonable financial records and maximize the use of authorized funds. BEAs need to UNDERSTAND how they fit into the big picture. Areas to train and monitor with BEAs are:

(1) Coding structure use. This should include basics on Financial Information Pointers, document numbers, and the Accounting Classification Code. Proper use of codes by BEAs will help align execution information with the budgeted plan. Further, proper training eliminates the problem of the "favorite FIP/Data Element."

(2) Transaction Cycle. BEAs must understand what comprises a reservation, obligation, expense, and payment and how each affects their financial records and SABRS.

(3) Source documents and file maintenance. BEAs must understand the forms they use to obtain goods and services and how to maintain reasonable pending and posted files.

(4) Cycle reconciliation. BEAs must understand how to verify accounting records after each SABRS cycle. They must understand how to read various reports and how to update their files and determine problems for correction. Without understanding reports and performing cycle verification, a BEA's records will become unreliable quickly. Once this happens, funds will become over obligated quickly, and they (BEAs) will not know how they stand financially.

(5) Validations of outstanding obligations. BEAs must be trained in how validations are performed and monitored to ensure they do them. This will help eliminate duplicate obligations and posting errors causing over or under obligation of funds.

(6) General financial management concepts. BEAs must be trained to understand the basics of fund usage, legal purchases, determining available balances, problems with overobligation, how to create a financial plan (budget), etc.).

